

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-07 FRB-01 INR-07 NSAE-00 EPG-02 SP-02 STR-04
TRSE-00 LAB-04 SIL-01 OMB-01 OPIC-06 /068 W
-----128377 292053Z /73

R 291721Z JUN 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 0588
INFO ALL EC CAPITALS
USMISSION GENEVA

UNCLAS BRUSSELS 07081

USEEC

PARIS ALSO FOR OECD
GENEVA FOR MTN

E.O.11652: N/A
TAGS: EINV, EEC
SUBJECT: REPORT ON DECLINING RATES OF INVESTMENT
IN EC INDUSTRY

1. THE DECLINE OF INVESTMENT IN EC INDUSTRY HAS BEEN
UNDERScoreD BY A RECENTLY PUBLISHED REPORT OF THE
UNION OF INDUSTRIES OF THE EUROPEAN COMMUNITY (UNICE),
THE EC'S MOST INFLUENTIAL BUSINESS LOBBYING GROUP.
THE REPORT WILL BE DISCUSSED BY THE ECONOMIC
POLICY COMMITTEE IN JULY.

2. THE UNICE REPORT REGISTERS INDUSTRY CONCERN OVER
THE DECLINING RATES OF PRIVATE INVESTMENT IN NEARLY
ALL THE MEMBER STATES OF THE COMMUNITY--ESPECIALLY
OVER THE LAST TWO OR THREE YEARS. THE RATE OF FIXED
CAPITAL FORMATION FOR THE EC DROPPED FROM 13 PERCENT
IN 1974 TO 6 PERCENT IN 1975 AND IT IS EXPECTED THAT
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1976 FIGURES WILL SHOW AN EVEN FURTHER DECLINE.

3. UNICE BLAMES THE DECLINE ON THE WAGES AND PUBLIC
SPENDING POLICIES WHICH HAVE REDUCED THE BUSINESS
SHARE OF NATIONAL INCOME. THE REPORT CITES EVIDENCE
THAT FOR THE 1970-75 PERIOD, WAGE AND SALARY COSTS
ROSE ALMOST 10 PERCENT FASTER THAN THE GENERAL PRICE

LEVEL. UNICE ALSO MAINTAINS THAT RISING LEVELS OF PUBLIC SPENDING ADDED FINANCIAL AND FISCAL BURDENS BY TAXATION, SOCIAL CHARGES, AND BY COMPETING IN CAPITAL MARKETS WITH PRIVATE ENTERPRISE.

4. THE RESULTS, ACCORDING TO UNICE, HAVE BEEN A DROP IN CORPORATE PROFITABILITY AND A SERIOUS WEAKENING OF FINANCIAL STRUCTURE DUE TO RISING DEBT/EQUITY RATIOS. THIS LACK OF INVESTMENT INCENTIVE HAS PRODUCED LOWER GNP AND ADDITIONAL UNEMPLOYMENT AT A TIME OF RECESSION.

5. UNICE WARNS AGAINST GOVERNMENT POLICIES (FAVORED BY MANY LABOR GROUPS) DESIGNED TO STIMULATE DEMAND AS A MEANS OF ACHIEVING STABLE GROWTH AND HIGH EMPLOYMENT LEVELS. THIS STRATEGY, THE REPORT ARGUES, IS SHORT-TERM AND COULD DANGEROUSLY STIMULATE INFLATION SINCE CONSUMPTION HAS SLOWED DOWN MUCH LESS THAN INVESTMENT.

6. THE REPORT PETITIONS FOR IMMEDIATE CORRECTIVE ACTION AIMED AT RESTORING BUSINESS PROFITABILITY AS THE ONLY LASTING SOLUTION TO THE PROBLEMS OF LAGGING ECONOMIC GROWTH, STRUCTURAL WEAKNESS, AND INFLATIONARY BOTTLENECKS. SPECIFICALLY UNICE CALLS ON GOVERNMENTS TO ADOPT TAX INCENTIVES FOR BUSINESS, ELIMINATE DOUBLE TAXATION OF DIVIDENDS, REFRAIN FROM PRICE FREEZING AND RESTRAIN GROWTH IN PUBLIC SPENDING. SUCH POLICIES, UNCLASSIFIED

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UNICE CLAIMS, WILL HAVE THE INDIRECT EFFECT OF REDUCING GENERAL BUSINESS APPREHENSION WHICH HAS BEEN A STRONG DETERENT TO INVESTMENT.

7. REPORT BEING POUCHED TO EUR/RPE - BRESLER. MORRIS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INDUSTRY, INVESTMENTS, ECONOMIC TRENDS, INVESTMENT RETURNS, REGIONAL ORGANIZATIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 29-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BRUSSE07081
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770232-0974
Format: TEL
From: BRUSSELS USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977069/aaaaahdk.tel
Line Count: 99
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6b9ab784-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 18-Oct-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2272609
Secure: OPEN
Status: NATIVE
Subject: REPORT ON DECLINING RATES OF INVESTMENT IN EC INDUSTRY
TAGS: EINV, EEC
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/6b9ab784-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009